

Message Text

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FM AMEMBASSY ANKARA
TO SECSTATE WASHDC IMMEDIATE 2983
INFO AMCONSUL ADANA
AMEMBASSY ATHENS
AMEMBASSY BRUSSELS
AMCONSUL ISTANBUL
AMCONSUL IZMIR
AMEMBASSY NICOSIA
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E.O. 11652: GDS
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SUBJECT: STATEMENT BY GOVERNOR OF TURKISH CENTRAL BANK

REF: (A) ANKARA 5813 (B) 77 ANKARA 3385

SUMMARY. FINANCE MINISTER ZIYA MUEZZINOGLU (WHO WILL BE IN WASHINGTON BEGINNING AUGUST 16) CLAIMS THAT CENTRAL BANK GOVERNOR TAYYARSADIKLAR MADE HIS LENGTHY STATEMENT OF AUGUST 11 IN THE KNOWLEDGE THAT CENTRAL BANK AUDITORS HAD PREPARED A REPORT BLAMING SADIKLAR FOR ALTERING THE BANK BALANCE SHEETS AND OTHER IRREGULARITIES AND RECOMMENDING HIS REMOVAL. SIX-MAN CENTRAL BANK ASSEMBLY IS NOW CONSIDERING THE COMPLAINTS; IT HAS THE
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AUTHORITY TO RECOMMEND THE GOVERNOR'S DISMISSAL TO THE COUNCIL OF MINISTERS. SADIKLAR HAS PORTRAYED THE MATTER AS A POLICY DISPUTE AND HAS DECLINED TO RESIGN OR RETIRE IN ORDER THAT HE MAY PROTECT THE INDEPENDENCE OF THE CENTRAL BANK AGAINST THE GOVERNMENT. BASIC ISSUE, HOWEVER, IS CLEARLY THE DISSATISFACTION OF THE FINANCE MINISTER WITH SADIKLAR'S PERFORMANCE. HIGHLIGHTS OF GOVERNOR'S STATEMENT ARE SUMMARIZED.

END SUMMARY.

1. FINANCE MINISTER ZIYA MUEZZINOGLU REVEALED AUGUST 11, IN REPLY TO STATEMENT OF CENTRAL BANK GOVERNOR TAYYAR SADIKLAR (REF A) THAT A REPORT PREPARED SOME TIME BEFORE BY CENTRAL BANK AUDITORS HAD BLAMED GOVERNOR FOR ALTERING BALANCE SHEETS OF THE BANK AND HAD RECOMMENDED HIS REMOVAL. REPORTEDLY, SADIKLAR HAD SHOWN BANK ASSETS AS GREATER THAN THEY WERE IN FACT. HE ALSO HAS ACKNOWLEDGED TO PRESS HAVING ENTERED INTO A SWAP ARRANGEMENT WITH THE BANK FOR INTERNATIONAL SETTLEMENTS (BIS), UNDER WHICH, WE UNDERSTAND FROM A BANKER SOURCE, HE DEPOSITED WITH THE BIS THE EQUIVALENT OF \$100 MILLION IN LIRA AND WAS ALLOWED TO HOLD BUT NOT USE THE DOLLAR COUNTERPART; HE ADDED THIS AMOUNT TO THE BALANCE SHEET. GOVERNOR IS FAULTED FOR PAYING INTEREST ON A LOAN THAT HE DID NOT USE. SADIKLAR ALSO APPEARS TO BE BLAMED BY THE AUDITORS FOR PERMITTING CENTRAL BANK OVERDRAFTS WITH CORRESPONDENT BANKS. FINANCE MINISTER TOLD PRESS THAT SADIKLAR HAD MADE HIS STATEMENT IN KNOWLEDGE THAT REPORT WOULD BE UNFAVORABLE TO HIM. MUEZZINOGLU HAS STATED THAT AUDITORS WERE NOT APPOINTED BY MINISTRY OF FINANCE BUT BY BANK ASSEMBLY (BOARD OF DIRECTORS). SADIKLAR HAS CLAIMED THAT MUEZZINOGLU INSPIRED THE AUDIT.

2. CENTRAL BANK ASSEMBLY, WHICH HAS AUTHORITY TO RECOMMEND GOVERNOR'S DISMISSAL TO COUNCIL OF MINISTERS, MET AUGUST 14 TO CONSIDER THE MATTER BUT REACHED NO CONCLUSION BY THE TIME
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IT ADJOURNED AT 0100 HOURS AUGUST 15. ASSEMBLY MET AGAIN LATER IN THE DAY. ONE PAPER HAS SPECULATED THAT SINCE THE SIX-MAN ASSEMBLY IS COMPOSED OF FOUR PERSONS APPOINTED, LIKE SADIKLAR, DURING THE GOVERNMENT OF SULEYMAN DEMIREL, AND ONLY TWO BY THE ECEVIT GOVERNMENT, THE ASSEMBLY MAY NOT FIND AGAINST THE GOVERNOR.

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FM AMEMBASSY ANKARA

TO SECSTATE WASHDC IMMEDIATE 2984

INFO AMCONSUL ADANA

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AMEMBASSY BRUSSELS

AMCONSUL ISTANBUL

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AMEMBASSY PARIS

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3. SADIKLAR HAS DESCRIBED HIS DISPUTE WITH MUEZZINOGLU AND THE GOVERNMENT AS A CONFLICT OF ECONOMIC VIEWS AND HAS ATTEMPTED TO SHOW HIMSELF AS DEFENDER OF THE PRINCIPLE OF THE INDEPENDENCE OF THE CENTRAL BANK FROM THE GOVERNMENT. IT SEEMS TO BE MORE THAN THAT (OR LESS). AS A MILLIYET EDITORIAL NOTED AUGUST 12, SOME OF THE GOVERNMENT POSITIONS WHICH SADIKLAR CRITICIZES WERE HELD ALSO BY THE PREVIOUS GOVERNMENT, BUT THE GOVERNOR DID NOT SPEAK OUT THEN.

4. THE BASIC ISSUE IS CERTAINLY THE DISSATISFACTION OF THE FINANCE MINISTER WITH SADIKLAR'S PERFORMANCE. THE GOVERNOR IS NOT HIGHLY REGARDED PROFESSIONALLY
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BY THE BANKERS WE MEET AND THE EMBASSY ITSELF HAS NOT FOUND HIM IMPRESSIVE. DEPARTMENT WILL RECALL THAT HE WAS ONE OF THE EARLY EXPONENTS OF THE "US ECONOMIC EMBARGO" THEORY (REF B), A WAY OF THINKING THAT FAILS TO APPRECIATE THE LACK OF SENTIMENTALITY IN BANKERS' CREDIT CALCULATIONS AND THE NEED FOR BORROWERS TO SATISFY THE CONDITIONS UNDER WHICH BANKS ARE WILLING TO LEND. "NEVER MIND THE VIEWS OF THE LAWYERS," HE TOLD ONE AMERICAN BANKER WHO HAD CITED TO THE GOVERNOR A PROHIBITIVE US REGULATION, "FIND A WAY AROUND THEM". IT APPEARS TO BE PRECISELY HIS EFFORTS TO FIND WAYS AROUND THINGS THAT HAVE CAUSED THE GOVERNOR'S PRESENT EMBARRASSMENT.

5. LEGISLATION ESTABLISHING THE CENTRAL BANK PROVIDES THAT THE GOVERNOR'S TERM IN OFFICE IS FIVE YEARS AND ONE INFERS

FROM IT THAT HE IS NOT TO BE REMOVED EXCEPT FOR CAUSE. WHETHER THE CENTRAL BANK AUDIT WAS INSPIRED BY THE FINANCE MINISTRY OR NOT, MR. MUEZZINOGLU CLEARLY HOPES THAT IT WILL PROVIDE THE CAUSE.

6. ONE MUST SHARE MR. SADIKLAR'S JUDGMENT THAT HE WAS INDEED GOVERNOR IN UNLUCKY TIMES. THERE HAS BEEN NO SUGGESTION THAT HE AS ACTED FOR PERSONAL GAIN. IT IS EASY TO IMAGINE THAT OUT OF ZEAL FOR THE SUCCESS OF CENTRAL BANK NEGOTIATIONS WITH THE INTERNATIONAL BANKS, SADIKLAR TOOK THE EXPEDIENT WAY; HE TRIED TO MAKE THE BANK LOOK AS THOUGH IT WERE IN BETTER SHAPE THAN IT WAS. ALL OF THE ACTIONS THAT HE IS BEING FAULTED FOR WERE APPARENTLY DONE BEFORE THE ECEVIT GOVERNMENT CAME INTO OFFICE. THEY ARE, TO SAY THE LEAST, ACTIONS INCONSISTENT WITH THE PRINCIPLE OF BANK INDEPENDENCE.

7. WHAT COMES OUT OF THIS INCIDENT CAN ONLY BE DAMAGING TO THE CENTRAL BANK AND TO THE GOVERNMENT. IT IS ALMOST CONFIDENTIAL

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CERTAIN TO RESULT IN THE OUSTER OF SADIKLAR SOONER OR LATER. AND IT IS ONE FURTHER PIECE OF EVIDENCE -- AND DRAMATIC EVIDENCE AT THAT -- THAT ECONOMIC DECISION-MAKING OF THE TURKISH GOVERNMENT IS A POORLY COORDINATED AFFAIR.

8. FOLLOWING IS SUMMARY OF HIGHLIGHTS FROM GOVERNOR'S STATEMENT OF AUGUST 11:

A. GOVERNOR DEFENDS PRINCIPLE OF INDEPENDENCE
IN HIS OPENING WORDS, SADIKLAR CAST HIS STATEMENT AS A DISPUTE BETWEEN THE CENTRAL BANK GOVERNOR AND THE GOVERNMENT. TURKEY DESERVES TO HAVE AN INDEPENDENT CENTRAL BANK LIKE THOSE IN THE ADVANCED COUNTRIES, HE SAID. CENTRAL BANK LEGISLATION, IN FACT, CALLS FOR SUCH AN INSTITUTION. SINCE THE FINANCE MINISTER HAD BROUGHT RELATIONS BETWEEN THE CENTRAL BANK AND THE GOVERNMENT TO A POINT OF DANGER FOR THE COUNTRY, SADIKLAR SAID, HE WAS DETERMINED TO STAY ON IN HIS JOB AND TO CONTINUE IN HIS DUTY TO CREATE AN INDEPENDENT AND PERMANENT CENTRAL BANK, DESPITE THE INSISTENT DEMANDS OF THE MINISTER FOR HIS RESIGNATION.

B. SADIKLAR DEFENDS HIMSELF

(1) SADIKLAR DID NOT DIRECTLY ADDRESS THE SUBJECT OF ALTERING THE BALANCE SHEET. (IN ANSWER TO PRESS QUESTIONS ON AUGUST 12, SADIKLAR ACKNOWLEDGED THAT HE HAD AUTHORIZED PAYMENT OF \$819,000 COMMISSION FOR AN UNUSED CREDIT OF \$150 MILLION (SIC). HE LABELED IT A SWAP ARRANGEMENT.) IN THE AUGUST 11 STATEMENT HE EXPLAINED AND DEFENDED THE CENTRAL BANK OVERDRAFTS BY STATING THAT PAYMENT ORDERS OF A CENTRAL BANK ARE FREQUENTLY BASED ON THE CREDIT OF THE BANK AND MAY BE ISSUED WITHOUT

COVERAGE. LATER, THE OPEN ACCOUNT MAY BE STRENGTHENED
OR THE CREDIT OF A CORRESPONDENT BANK USED. WHILE THE
TURKISH CENTRAL BANK WAS USING \$800 MILLION IN CREDIT IN
THIS MANNER, THE CREDITS WERE SUDDENLY STOPPED WHEN
FINANCE MINISTER (BESIM USTUNEL) IN THE SUMMER OF
1977 DURING THE INTERIM ECEVIT GOVERNMENT PUBLICLY SAID
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THAT HE HAD FOUND THE TREASURY TO BE BANKRUPT.

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INFO AMCONSUL ADANA

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WHEN TURKEY WAS DEPRIVED OF THIS CREDIT, CENTRAL
BANK TRANSFER ORDERS BEGAN TO BE RETURNED WITHOUT BEING
PAID, SADIKLAR STATED.

(2) FURTHER IN HIS DEFENSE, SADIKLAR LISTED HIS

ACHIEVEMENTS AS GOVERNOR, CLAIMING THAT HE HAD TAKEN NECESSARY ACTIONS AND SUPPORTED NECESSARY REMEDIES LONG BEFORE THEY WERE RECOGNIZED BY THE ECEVIT GOVERNMENT AS DESIRABLE. HE HAD FOR EXAMPLE, STOPPED FOREIGN EXCHANGE TRANSFERS EARLY IN 1977 ALTHOUGH THE ACTION WAS DAILY ATTACKED BY THE REPUBLICAN PEOPLE'S PARTY (RPP), THEN IN OPPOSITION; TRIED TO POSTPONE SHORT-TERM DEBTS; MADE HIGH-LEVEL CONTACTS WITH US AND EUROPEAN BANKS TO SHIFT
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SHORT-TERM CONVERTIBLE LIRA DEBTS INTO LONGER MATURITIES; SUPPORTED LIMITS ON CENTRAL BANK LENDING AS EARLY AS 1977 AND MADE GREAT EFFORTS DURING THE PRESENT GOVERNMENT TO MAINTAIN CURRENT LIMITS; PROPOSED AS EARLY AS 1977 MOST OF THE ECONOMIC STABILIZATION MEASURES TAKEN BY THE PRESENT GOVERNMENT; AND OBTAINED \$1 BILLION LOANS FOR TURKEY IN 1977.

C. SADIKLAR BLAMES FINANCE MINISTER, GOVERNMENT, AND REPUBLIC PEOPLE'S PARTY.
GOVERNOR POINTED HIS OWN FINGER IN BLAME. FINANCE MINISTER HAD IRRESPONSIBLY SAID THAT TURKEY HAD \$5 BILLION IN DEBT THAT HAD TO BE PAID IMMEDIATELY; THIS STATEMENT HAD MADE CONTACTS WITH THE COMMERCIAL BANKS ON RESCHEDULING AND NEW CREDITS MORE DIFFICULT. BECAUSE OF MUEZZINOGLU'S ATTITUDE, THERE WAS A LACK OF COORDINATION AND DIALOG BETWEEN THE CENTRAL BANK AND THE FINANCE MINISTRY. THE VIEWS AND OPINIONS OF THE CENTRAL BANK HAVE NOT BEEN SOUGHT ABOUT ADJUSTMENT OF TURKISH LIRA CROSS-RATES OR IN THE PREPARATION OF LEGISLATION GOVERNING THE DISTRIBUTION OF CENTRAL BANK CREDITS. IN FACT, THE CENTRAL BANK HAD NOT EVEN BEEN OFFICIALLY INFORMED OF ITS CREDIT LIMITS. FURTHERMORE, NEW LOADS WERE PLACED ON THE BUDGET, ONE AFTER ANOTHER -- AS AGRICULTURAL SUPPORT PRICES WERE RAISED THE NUMBER OF HOURS WORKED BY MANY HEALTH EMPLOYEES WAS INCREASED, RETIREMENT BENEFITS WERE RAISED, AND WAGES OF WORKERS IN STATE ENTERPRISES WERE HIKED SHARPLY. GOVERNMENT MAKES FOREIGN EXCHANGE AVAILABLE FOR PILGRIMS ON THE HAJ TO MECCA, SADIKLAR COMPLAINED, ALTHOUGH FACTORIES ARE GOING WITHOUT NEEDED IMPORTS OF RAW MATERIALS AND SPARE PARTS.

D. THE GOVERNOR PRESCRIBES.
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SCATTERED THROUGHOUT THE TEXT, SADIKLAR PROVIDED HIS OWN

ECONOMIC PRESCRIPTIONS. TURKISH ECONOMY IS SPENDING MORE THAN IT CAN PRODUCE. HIGH GROWTH, HIGH INVESTMENT, AND HIGH IMPORTS MEAN HIGH TRADE DEFICITS. TURKEY NEEDS TO DEVELOP AN ECONOMIC MODEL THAT WILL REDUCE THE FOREIGN DEFICIT. IT IS NOT AGAINST ANY ECONOMIC PRINCIPLES TO PROJECT LOW GROWTH AND HAVE WITHIN THOSE LIMITS HIGH RESULTS. SADIKLAR BELIEVED THAT PRICES HAVE TO BE BROUGHT UNDER CONTROL, THAT THE GOVERNMENT/TURK-IS COLLECTIVE BARGAINING AGREEMENT SHOULD BE WIDENED, AND THAT FINANCING THE STATE ECONOMIC ENTERPRISES SHOULD BE REGULARIZED BY RAISING PRICES OF THEIR GOODS AND SERVICES TO COVER COSTS AND BY KEEPING WAGE SETTLEMENTS AMONG THEIR WORKERS FROM RESULTING IN JANITORS BEING PAID AS MUCH AS MINISTRY UNDERSECRETARIES.

9. OBVIOUSLY, THERE ARE REAL DIFFERENCES OF VIEWS BETWEEN DR. SADIKLAR AND THE GOVERNMENT -- MOST NOTABLY HIS CRITICISM OF A HIGH-GROWTH POLICY VS. THE GOVERNMENT'S CONTINUED ADVOCACY OF HIGH GROWTH AND HIS BELIEF THAT CENTRAL BANK LENDING MUST BE TIGHTLY CONTROLLED VS. THE GOVERNMENT'S FREQUENT TEMPTATION TO SLIP THE LIMITS. ON THSE AND OTHER POINTS OF DOCTRINE HE IS OBVIOUSLY RIGHT, IF PERHAPS TOO LATE.
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